



CITY OF SANTA BARBARA

JOINT COUNCIL AND REDEVELOPMENT AGENCY AGENDA REPORT

AGENDA DATE: October 12, 2010

TO: Mayor and Councilmembers
Chair and Boardmembers

FROM: Housing and Redevelopment Division, Community Development
Department

SUBJECT: Financial Assistance To Housing Authority For
Acquisition/Rehabilitation Of 2941 State Street

RECOMMENDATION: That Council and Redevelopment Agency Board take the following actions regarding a new affordable housing project at 2941 State Street:

- A. That the Agency Board approve an acquisition loan of \$360,000 of Redevelopment Agency Housing Setaside Funds to the Housing Authority of the City of Santa Barbara and authorize the Agency's Deputy Director to execute a loan agreement and related documents in a form approved by Agency Counsel and to make nonsubstantive changes;
- B. That the Agency Board appropriate \$360,000 in the Redevelopment Agency Housing Setaside Fund from unappropriated reserves for the acquisition loan;
- C. That Council approve a rehabilitation grant of \$90,000 in Community Development Block Grant (CDBG) funds and authorize the Community Development Director to execute a grant agreement and related documents in a form approved by the City Attorney and to make nonsubstantive changes; and
- D. That Council and Agency Board adopt, by reading of title only, A Joint Resolution of the Council of the City of Santa Barbara and the Redevelopment Agency of the City of Santa Barbara Finding that the Use of Redevelopment Agency Housing Setaside Funds as a Loan to the Housing Authority of the City of Santa Barbara for Acquiring Affordable Housing Located Outside the Central City Redevelopment Project (CCRP) Area at 2941 State Street Will be of Benefit to the CCRP.

DISCUSSION:

The City's Housing Authority plans to acquire the property located at 2941 State Street and rehabilitate and operate it as part of its stock of affordable rental housing. The Housing Authority has requested a total of \$450,000 (\$75,000 per unit) in financial assistance from the City and Redevelopment Agency.

Property Description

The property consists of an 8,276 square foot lot located on Upper State Street between Alamar and Calle Crespis and is improved with a 60-year-old 2-story residential structure comprising six 1-bedroom units. The seller, David Dahan, has participated with the Housing Authority for several years in accepting tenants with federal Section 8 rental subsidies. In fact, all five of the current tenants are Section 8 tenants that were referred to the owner by the Housing Authority (with one unit being currently vacant).

Acquisition Financing

The property was recently appraised at \$900,000, and the Housing Authority has successfully negotiated a sale price of \$860,000. The \$40,000 differential represents a tax deductible gift donated by the owner to the Housing Authority. In first position on title would be a seller carry-back loan in the amount of \$500,000 that the seller has required, for which the Housing Authority plans to issue a tax-exempt mortgage revenue note. Interest on the note would be at a fixed rate of five percent. The note would have a term of 15 years and would be fully amortized.

The requested Agency Loan in the amount of \$360,000 would cover the balance of the purchase price. The Housing Authority would cover the closing costs for the transaction which are estimated to be around \$6,000.

Agency Loan

The proposed \$360,000 Agency acquisition loan would have terms typical of other loans the City and Agency provide for affordable housing projects. The loan would have a 55-year term and an interest rate of three percent. Loan repayment would be on a residual receipts basis, with payments due to the extent the project has a positive cash flow (after payments on the seller carry-back note and other necessary expenses). A balloon payment would be due at the end of the loan's 55-year term.

Security

The requested Agency loan would be secured by a deed of trust recorded against the property in second position, behind the seller carry-back note. Given the appraised value of \$900,000 for the property, the Agency loan would be completely secured.

Planned Rehabilitation

The Housing Authority requests \$90,000 in Community Development Block Grant (CDBG) funds to address immediate rehabilitation needs, such as new windows and doors and other necessary repairs to be made while tenants remain in occupancy. The City's Loan Committee has reviewed and approved the requested \$90,000 CDBG grant that will cover these initial repairs and upgrades. As vacancies arise, units will be thoroughly rehabilitated. The Housing Authority estimates it will cost another \$150,000 to complete rehabilitation of all of the units and might return to the City/Agency for additional financial assistance.

Tenancy and Affordability

Existing tenants are all currently low income households and will be allowed to remain as long as desired, without any need for relocation. Rents will be maintained at their current levels which range from \$1,182 to \$1,250 per month. The households will

continue to pay no more than 30 percent of their income for rent, with a Section 8 rental subsidy covering the difference.

As with all City-funded affordable housing projects, an affordability control covenant must be executed and recorded to ensure that the property will be used to provide affordable housing to low income households. The Housing Authority requests and staff supports the 60-year term that the City typically applies to Housing Authority projects. The California Redevelopment Law requires that affordability controls for rental housing remain on title for fifty-five years. Also to be recorded is a Notice of Affordability Restrictions On Transfer of Property.

While the City's Affordable Housing Policies and Procedures call for 90-year affordability covenants, staff is comfortable recommending 60 years at this juncture for Housing Authority projects, given that the Housing Authority is a public agency constituted solely to develop, acquire, and operate affordable housing. The Housing Authority's track record is exemplary, and the City Council influences Housing Authority policies in that it has the power to appoint and remove members of the Housing Authority Board of Directors. Allowing the Housing Authority to exercise some flexibility with rents and incomes within the general category of low income housing after 60 years is appropriate given the relationship between the City and the Housing Authority.

Benefit to the Central City Redevelopment Project Area (CCRP)

While the site is located outside the CCRP, the project will benefit the CCRP in providing needed rental housing nearby that is affordable to low income persons. California Redevelopment Law requires that in order for Agency Housing Setaside funds to be spent outside the CCRP, the City Council and the Redevelopment Agency must adopt a resolution with certain findings and the determination that the project is of benefit to the CCRP.

Sustainability Impact

The Housing Authority's planned rehabilitation and sound management practices will significantly extend the project's useful life. The Housing Authority will replace existing appliances with energy efficient models and will install new energy efficient lighting and plumbing fixtures.

BUDGET/FINANCIAL INFORMATION AND CONCLUSION:

The proposed project would be an important addition to the Housing Authority's stock of affordable housing. At a total estimated cost of \$1,100,000 (\$183,333 per unit) including the total subsidy from the City/Agency at \$450,000 (\$75,000 per unit), the project makes sound financial sense. The Agency and City have sufficient Housing Setaside funds and CDBG funds to provide the requested financial assistance to the Housing Authority. The City Council's Finance Committee recommended approval of the proposed acquisition loan and rehabilitation grant at its meeting of September 28, 2010.

Council Agenda Report
Financial Assistance To Housing Authority For Acquisition/Rehabilitation Of 2941 State
Street
October 12, 2010
Page 4

ATTACHMENT: Letter from the Housing Authority

PREPARED BY: Brian Bosse, Housing and Redevelopment Manager / SK

SUBMITTED BY: Paul Casey, Assistant City Administrator / Community
Development

APPROVED BY: City Administrator's Office



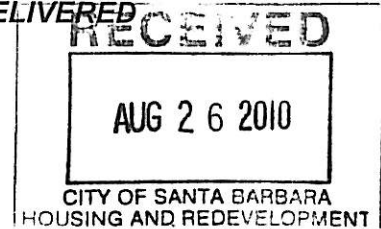
HOUSING

AUTHORITY OF THE
CITY OF SANTA BARBARA808 Laguna Street / Santa Barbara
California / 93101Tel (805) 965-1071
Fax (805) 564-7041

August 24, 2010

Mr. Steven Faulstich, Housing Programs Supervisor
Housing & Redevelopment Division
City of Santa Barbara
630 Garden St.
Santa Barbara, CA 93101

HAND DELIVERED



RE: REQUEST FOR CITY RDA FUNDS FOR THE ACQUISITION OF REAL
PROPERTY LOCATED AT 2941 STATE STREET

Dear Steven:

The Housing Authority has continued to look for opportunities to acquire existing apartment buildings to add to its affordable housing inventory. Current market conditions are such that purchasing existing units and rehabilitating them can be less costly than new construction.

A property we are presently pursuing is a 6 unit complex located on upper State Street – 2941 State St. Although it suffers from some deferred maintenance, the building's structural elements are sound. It is comprised of 6 one-bedroom/one-bath apartments and has one on-site parking space for each unit. Five of the six units are currently occupied by low-income residents participating in the Section 8 Housing Choice Voucher program. The remaining unit is currently vacant, although was previously occupied by a Section 8 Voucher holder. Purchasing this property would ensure the existing low-income residents retain their units at affordable rents and would also service, upon turnover, the Authority's high demand for one-bedroom units. This demand is represented on our various waiting lists as one and two-person households comprised largely of low income workers, seniors and disabled persons.

The property was recently appraised for \$900,000 (see enclosed appraisal report by David Jasso & Associates). Looking at comparables, we consider this value to be on the low end of the market, and have been able to negotiate a favorable, below market purchase price with the owner at \$860,000 (\$143,333 / unit).

Please be advised that the Housing Authority Commission is aware and has approved the property as a possible addition to the Authority's Non HUD program, and to that end adopted Resolution No. 2411 on August 4, 2010 (copy enclosed). As noted, the Resolution authorized me to begin negotiations with the owner for the property's purchase.

As you know, securing affordable rental housing for low income persons in our market continues to require local subsidy. Pursuant to our initial discussions with your office, we feel the most appropriate and straight-forward approach to this acquisition would be a residual receipts loan from the Redevelopment Agency of the City of Santa Barbara in the amount of \$450,000 (or \$75,000 per unit). Of this, \$360,000 would be down payment monies and \$90,000 would be for immediate rehab needs.

Mr. Steven Faulstich
2941 State Street Funding Request
August 24, 2010
Page 2

As the enclosed proforma shows, the balance of the purchase price would met by a conventional loan or seller carry-back note in the amount of \$500,000 at 5%. The owner has indicated a desire to carry-back financing of \$500,000 via the Authority's issuance of a tax exempt note for that amount.

While we estimate total rehabilitation costs for the property to be \$240,000 in order to bring the property up to the Authority's high standards, we see immediate rehabilitation needs (to be completed directly after closing) to be \$90,000. We are seeking City/RDA funding as part of this \$450,000 request to address those needs.

If this request meets with City/RDA staff approval as reasonable and appropriate, we would ask that it be placed before the City Council/RDA in the next 30 days for consideration. With our request moving forward at the City/RDA level, we would feel confident about structuring and securing financing for the balance of the purchase price in order to close by the end of October as requested by the seller.

As always, the Housing Authority Commission and staff are hopeful that you will agree with us on the wisdom of this acquisition as well as the structure of our proposed financing.

Sincerely,

HOUSING AUTHORITY OF THE
CITY OF SANTA BARBARA

A handwritten signature in black ink, appearing to read "Robert G. Pearson", written over the printed name.

ROBERT G. PEARSON
Executive Director/CEO

Encls.

cc: Housing Authority Commission